

# The Impact of Financial Incentives on Employees Commitment

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## Abstract

This study investigated the impact of financial incentives and rewards on employee's commitment. A total of 100 employees from the Private Sector Banks, Public Sector Banks, Islamic Banks and Microfinance Banks at Bahawalpur that includes 71 male and 29 female. Random sampling was used as a sampling design and questionnaire in Likert form was used to gather data from the participants. Linear regression was used to investigate the relationship between financial incentives and employee's commitment. Results however revealed positive and significant association between financial incentives and employee commitment and increase in financial incentives such as promotion and bonuses enhanced employee commitment which increases the employee's performance and reduces turnover and employees can only be loyal when their wants and desires are satisfied.

**Keywords:** Employee commitment, Financial incentives, Employee loyalty

## 1. Introduction & Brief Literature Review

There is no doubt that now a day attracting and retaining talented employees is a crest priority for any organization because talented employees positively impact on the performance of organizations. Bateman & Strasser (1984) found some reasons for studying the loyalty and include "(a) behaviors, attitudes of employees, (b) employee's job and accountability and (c) performance of employees.

### 1.1 Definition of Commitment

Batemen & Strasser (1984) define that "commitment of employee is multi-dimensional in nature which involves high degree of employee's dedication with the organization, their readiness to put forth high level of effort, similarity of objectives and values and a strong wish or desire to be a part of the organization". Commitment is a constructive assessment of the organization and its objectives (Sheldon, 1971). According to Buchanan (1974) commitment is defined as a psychological relationship between the workers and organizations. Loyalty of employees based on these:

- a) faith in the objectives of company
- b) readiness to put forth high level of effort in the company
- c) strong wish to be a part of the organization (Porter et al., 1974):

Thus "a committed employee is one who works with enthusiasm, puts forth high level of effort, and believes in the objectives of the organization" (Meyer, 1997). Thus, committed workforce involved themselves toward organizational success.

### 1.2 Types of Commitment

Affective commitment is defined as the emotional association of an employee with its organization and objectives (Mowday et al, 1997, Meyer & Allen, 1993). Porter et al. (1974) further state that the affective commitment thus based on (1) "faith of the employees in the organization's objectives (2) their readiness to put forth effort in order to achieve organizational objectives, and (3) a strong wish to be a part of the organization". Whereas Continuance commitment is the readiness of employees to be with an organization because of the cost associated with leaving the organization (Reichers, 1985) and further state that continuance commitment based on years of employment in the organization, job tenure and financial incentives rewarded to employees. According to Normative commitment

employees want to remain in the organization due to the pressures resulting from organizational obligations (Bolon, 1994).

### **1.3 Benefits of committed workforce**

There are several benefits of committed workforce and include:

“Increased job pleasure, job performance, growth and employee turnover Increased retention rate, decreased intention to search for alternative employers and absences from work”

### **1.4 Factors affecting Employees commitment**

There are numerous factors that affect on employees commitment or loyalty for example:

“Demographic variables such as age, gender, marital status etc (Mathieu & Zajac, 1990 Recruitment procedures (O’ Malley., 2000).

Good induction program and training and Good relationship with managers (Gaertner & Nollen, 1989).

Good relationship with managers being a member of a particular organization (Alogg et al., 1995)

Promotion and Job satisfaction (Schwarzwarld et al., 1992).

Salary, financial incentives and rewards” (Cohen & Gattiher, 1994).

### **1.4 Employee’s commitment and Financial incentives and rewards**

Financial incentives and rewards positively affect on employees commitment or loyalty. Employees stay in an organization because of the cost for leaving the organization and benefits to be a part of the organization. Therefore it is important for the organization to maintain the relationship with employees in such manners which increase their loyalty with the organization. Financial incentives and rewards make continuation of the employment relationship because it create the basis for high levels of commitment so, firms must develop strategies that include financial incentives and rewards for example promotion, bonus, profit sharing or gain sharing and employees stock ownership etc (Development and Learning Organization, VOL.25 NO.1, 2011). Employees want their performance should be appreciated and by offering them appropriate rewards and benefit package is an effective way not only to achieve their organizational goals but also their continuation of relationship with talented employees.

The Most important human resource management issue nowadays is rewards structure (Milkovich & Newman, 2008). But due to global competition and environmental uncertainty most employers have shifted from traditional way of rewards structure and design them on the basis of performance, skills knowledge and competency (Lawler, 2000) which attracts, retains and motivates talented employees to achieve their objectives (Milkovich & Newman, 2008). Their proper implementation results in improved employee satisfaction, increased teamwork and motivation and employees performance (Drucker & White, 2000). The empirical results of the administration of benefits showed positive association between employee’s commitment and financial incentives and rewards.

Employee’s commitment increases the employee’s performance and reduces turnover, and thus loyalty of employees depends on the satisfaction of their wants and desires. The base of relationship continuation between employees and employer monetary incentives and rewards because these monetary incentives and rewards provided to employees on the performance of their tasks. According to Maslow (1954) there is a hierarchy of human needs and when one want is satisfied then employees try to satisfy another want. Maslow divide human needs into five types (1) physiological needs for example food, clothing, (2) security needs, (3) social needs for example need for affection, friendship, and sense of belonging, (4) self-esteem needs and (5) self-actualization needs Vroom (1964:134) presented expectancy theory and found significant association between loyalty and expectation of financial rewards and which resulted in better performance of tasks. If their expectation is high then

they will perform better and will be more committed and vice versa (Martin & Shawn, 1984:273). Coyle-Shapiro et al. (2002) found that those organizations who instead of giving the financial rewards only to managers because of better performance of organizations, should also concentrate on awarding their lower level of employees to retain them for long time in the organization. And organizations should introduce collective plans for example cash-based rewards, promotion and profit sharing because these may impact positively on employee's loyalty (Gerhart & Rynes, 2003). Thus, high level of employee job performance is significantly associated with high level of loyalty and negatively related to employee's turnover (Ziauddin & Ramay, 2010).

### **1.5 Objectives**

The main purpose is to investigate the impact of financial incentives and rewards on employee's commitment. The secondary objectives include:

Empirically determine the association between financial incentives and employees commitment.

Formulate recommendations regarding financial incentives and employees commitment.

### **1.6 Research Questions**

This research study is poised towards providing answers to the following questions:

Do financial incentives have any effect on employee's commitment?

## **2. Theoretical Framework**

Theoretical framework is developed according to which continuous survival of organizations based on the important assets of organizations (employees). Maslow (1954) also concluded that human have five basic wants and which can only be satisfied through financial incentives and rewards. March & Simeon (1958:52) state that employees attach themselves with the organizations due to certain incentives and rewards. Vroom (1964:134) also found out positive relationship between employees commitment and financial incentives and rewards which result in increased job satisfaction, organizational performance, and employee performance and employee retention rate.

## **3. Conceptual Framework**

Independent Variable

Dependent Variable

Financial incentives and rewards:

Promotion

Bonus



Employee commitment

## **4. Hypothesis**

H1: Financial incentives are significantly associated with employee's commitment.

## **5. Research Methodology**

### **5.1. Sample size & sampling technique**

Population includes the banks of Bahawalpur which further divided into Private Sector Banks, Public Sector Banks, Islamic Banks and Microfinance Banks at Bahawalpur. Random sampling design was used to select the participants and that include employees of banks of Bahawalpur. 120 questionnaires

were distributed among participants and out of which only 100 employees respond so sample size is 100 and data was collected from the 22 branches of these following banks:

### Sampling

| Sr.no |                      | List of banks   | Branches  |
|-------|----------------------|---|---|
| 1     | Private Sector Banks | Askari Commercial Bank<br>Bank AlFalah Limited<br>Bank Al-Habib Limited<br>Faysal Bank Limited<br>KASB Bank Limited<br>Habib Metropolitan Bank Limited<br>Soneri Bank Limited<br>Allied Bank Limited<br>MCB Bank Limited<br>United Bank Limited<br>Habib Bank Limited | 1<br>2<br>1<br>2<br>1<br>1<br>1<br>2<br>2<br>2<br>2 |
| 2     | Public Sector Banks  | First Women Bank Limited<br>National Bank of Pakistan   | 1<br>2  |
| 3     | Microfinance Banks   | Khushali Bank Limited   | 1   |
| 4     | Islamic Banks        | Meezan Bank Limited   | 1   |
|       |                      |   | TOTAL= 22   |

### 5.2. Variables

Independent variable is financial incentives whereas dependent variable is employee commitment.

### 5.3. Data Collection

Questionnaire was developed in Likert form from highly agree to highly disagree. Questionnaire was distributed personally among the employees of banks that include manager, operational manager, assistant manager, cashier, customer service officer, general banking officer etc.

### 5.4. Data Analysis

SPSS version 19 was used in order to analyze the data in the research work. The tables of descriptive statistic consist of Frequency (F), Percent (%) and Cumulative Frequency (C.F %) are shown below.

## 6. Findings

### 6.1. (a) Descriptive Results

Table 6.1: Gender

|        | F   | %   | C.F % |
|--------|-----|-----|-------|
| male   | 69  | 69  | 69    |
| female | 31  | 31  | 100   |
| Total  | 100 | 100 |       |

Table 6.1 shows that 71% represents male, while the remaining 29.0% consists of female participants.

| Age         |     |     |       |
|-------------|-----|-----|-------|
|             | F   | %   | C.F % |
| 20-30       | 67  | 67  | 67    |
| 30-40       | 16  | 16  | 83    |
| 40-50       | 12  | 12  | 95    |
| 50 or above | 5   | 5   | 100   |
| Total       | 100 | 100 |       |
|             |     |     |       |

Table: 6.2, showing four categories of respondents' age and 67.0% representing age group of 20-30 years.

| Table 6.3: Marital status |     |     |       |
|---------------------------|-----|-----|-------|
|                           | F   | %   | C.F % |
| married                   | 45  | 45  | 45    |
| unmarried                 | 55  | 55  | 100   |
| Total                     | 100 | 100 |       |

Table 6.3 indicates that sample (55.0%) was unmarried and 45% was married.

Table 6.4: Job title

|                     | F   | %   | C.F% |
|---------------------|-----|-----|------|
| manager             | 7   | 7   | 7    |
| operational manager | 11  | 11  | 18   |
| assistant manager   | 10  | 10  | 28   |
| cashier             | 21  | 21  | 49   |
| remittance officer  | 14  | 14  | 63   |
| other               | 37  | 37  | 100  |
| Total               | 100 | 100 |      |

indicates the job title categories that include customer service officer, General banking officer, loan officer, other and 21% consists of cashier, 14% remittance officer, 11% operational manager, 10% assistant manager and 7% manager.

Table 6.5: Monthly income

|               | F   | %   | C.F % |
|---------------|-----|-----|-------|
| under 15000   | 16  | 16  | 16    |
| 15000-25000   | 31  | 31  | 47    |
| 25000-35000   | 29  | 29  | 76    |
| 35000-45000   | 9   | 9   | 85    |
| 45000-55000   | 8   | 8   | 93    |
| 55000 or more | 7   | 7   | 100   |
| Total         | 100 | 100 |       |

Monthly income as shows in table 6.5 divided into six categories, 31% consists of monthly income of 15000-25000, 29% of 25000-35000, 16% under 15000, 9% of 35000-45000, 8% of 45000-55000 and only 7% of sample consists of monthly income of 55000 or more.

Table 6.6: Experience

|            | F   | %   | C.F % |
|------------|-----|-----|-------|
| 1-2 years  | 24  | 24  | 24    |
| 3-4 years  | 26  | 26  | 50    |
| 5-6 years  | 22  | 22  | 72    |
| 7-8 years  | 3   | 3   | 75    |
| 8-10 years | 3   | 3   | 78    |
| other      | 22  | 22  | 100   |
| Total      | 100 | 100 |       |

Whereas table 6.6 indicates the experience of respondents and shows that majority of experience level

of employees (26.0%) was 3-4 Years

Table 6.7: Education

|               | F   | %   | C.F % |
|---------------|-----|-----|-------|
| intermediate  | 3   | 3   | 3     |
| graduate      | 26  | 26  | 29    |
| post graduate | 70  | 70  | 99    |
| other         | 1   | 1   | 100   |
| Total         | 100 | 100 |       |

Table shows that majority of the employees were post-graduate i.e. 70%.

#### 6.1. (b) Hypotheses Finding

The hypothesis was tested through Linear Regression and the summarized results of regression analysis are presented below:

H1: Financial incentives are significantly associated with employee's commitment.

Table 6.8: Summarized Results of Linear Regression

Relationship between Financial Incentives and Employees commitment

| R    | t-value | F-Value | P-value |
|------|---------|---------|---------|
| .102 | 3.340   | 11.155  | .001    |

The value of R is .102, which shows that 10.20% of the variance in Employees commitment is due to the predictor variable Financial Incentives. The value of F test is 11.155 significant at  $\alpha$  0.001, which is not highly significant but significant. The t value is 3.340 which is  $> +2$  making it a useful predictor. If p-value  $>$  than 0.05 then alternative hypothesis accepted so, H1 is accepted (F=11.155, p=0.001 and t=3.340) and we conclude that financial incentives has a significant relationship with employees commitment.

## 7. Conclusion, Recommendations and Limitations:

The results show significant association between financial incentives and employee loyalty which collaborates with the expectancy theory of Vroom (1964:134). Thus, increase in financial incentives such as promotion and bonuses enhanced employee loyalty which increases the employee's performance and reduces turnover (Gerhart & Rynes, 2003) and employees can only be loyal when their desires are satisfied by management of organizations (Maslow, 1954:122).

Thus, high level of employee job performance is positively associated with high level of commitment and negatively related to employee's turnover (Ziauddin & Ramay, 2010). Thus organizations should



also concentrate on awarding their lower level of employees to retain them for long time in the organization (Coyle-Shapiro et al. 2002). And organizations should introduce collective plans for example cash-based rewards, promotion and profit sharing because these may impact positively on employee's loyalty and thus make stronger the relation between employee and employer (Gerhart & Rynes, 2003).

This study has also a number of limitations includes because this study only focuses on a smaller number of banks branches selected from Bahawalpur so the generalization of the finding may not valid .The results are also limited by the small sample size with in area of Bahawalpur. Although it would be worthwhile to gather data from other cities of Pakistan to improve the generalizability of results.

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